

## Message Text

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PAGE 01 JAKART 03316 01 OF 04 140745Z  
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C O N F I D E N T I A L SECTION 1 OF 4 JAKARTA 3316

STADIS////////////////////////////////

FOR EA ONLY

E.O. 11652: GDS  
TAGS: EFIN, ID, ELAB  
SUBJECT: EXCHANGE RATE AND DEVELOPMENT

REF: JAKARTA 2221

1. IN A PREVIOUS MESSAGE (REFTEL) WE EXAMINED THE EXCHANGE VALUE OF THE RUPIAH BOTH FROM AN OVERALL BALANCE OF PAYMENTS PERSPECTIVE AND FROM A MORE NARROW VIEW WHICH EXAMINED THE VALUE OF THE RUPIAH AS IT RELATES TO INDONESIA'S NON-EXTRACTIVE EXPORTS. WE FOUND THAT WHEN EXTRACTIVES (WHICH FOR PURPOSES OF THIS ANALYSIS INCLUDES OIL, HARD MINERALS AND TIMBER) AND NON-EXTRACTIVES ARE CONSIDERED TOGETHER, IT IS NOT POSSIBLE TO MAKE A CASE ON GENERAL BALANCE OF PAYMENTS GROUNDS THAT THE RUPIAH IS OVERVALUED. HOWEVER, WE CONCLUDED THAT INsofar AS Indonesian EXPORTERS OF NON-EXTRACTIVE COMMODITIES ARE CONCERNED (AND BY IMPLICATION THE PRODUCERS OF IMPORT-COMPETING GOODS AS WELL), THEY ARE RELATIVELY LESS WELL OFF NOW THAN THEY WERE IN 1971 BECAUSE THE RATE OF INFLATION HAS BEEN SIGNIFICANTLY HIGHER IN INDONESIA THAN IN AND AMONG ITS TRADING PARTNERS AND ITS REGIONAL TRADING COMPETITORS. THIS HIGHER RATE OF INFLATION HAS NOT BEEN FULLY OFFSET  
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PAGE 02 JAKART 03316 01 OF 04 140745Z

BY EVEN THE COMBINED EFFECT OF REDUCED EXPORT TAXES, A DEPRECIATED CURRENCY AND MORE FAVORABLE WORLD MARKET PRICES. IN SHORT, EXPORTERS OF NON-EXTRATIVE (AND PRODUCERS OF IMPORT-COMPETING GOODS) HAVE SUFFERED A COST/PRICE SQUEEZE AS THE RUPIAH HAS BECOME OVERVALUED. IN THIS REPORT WE WILL EXAMINE SOME OF THE EFFECTS OF THE PRESENT RUPIAH EXCHANGE RATE ON THE

ECONOMY.

2. IT SHOULD BE NOTED AT THE OUTSET THAT WHILE THE INFLUENCE OF THE EXCHANGE RATE PERMEATES VIRTUALLY ALL ASPECTS OF THE ECONOMY (WE EXAMINE ONLY A FEW OF ITS EFFECTS), AT THE SAME TIME IT IS RARELY THE SINGLE CAUSE OF ANY SPECIFIC CHANGE OVER TIME. SHIFTS WITHIN THE CONOMY HAVE BEEN THE RESULT OF A WHOLE SET OF CIRCUMSTANCES ACTING AND INTERACTING UPON ONE ANOTHER TO PRODUCE CHANGE. IN THE ANALYSIS BELOW WE LARGELY IGNORE THESE MANY OTHER FACTORS TO FOCUS ON THE MARGINAL CHANGES INFLUENCED BY THE VALUE OF THE CURRENCY.

EMPLOYMENT CREATION -

3. NON-EXTRACTIVE EXPORTS. PERHAPS ONE OF THE MOST STRIKING CONSEQUENCES OF THE RUPIAH'S OVERVALUATIN HAS BEEN THE STAGNATION THAT HAS OCCURRED IN INDONESIA'S NON-EXTRACTIVE EXPORTS. A RECENT STUDY BY AN ILO EXPERT SHOWS THE FOLLOWING:

VOLUME INDES FOR NON-EXTRACTIVE EXPORTS 1971-76

1971 1972 1973 1974 1975 1976

ALL NON-EXTRACTIVES 100 89 92 101 101 100

11 LEADING NON-EXTRAC-

TIVE PRODUCTS 1/ 100 95 86 100 104 104

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PAGE 03 JAKART 03316 01 OF 04 140745Z

1/ THIS GROUP INCLUDES RUBBER, COFFEE, PALM OIL, SHRIMP, PEPPER, TEA, TOBACCO, COPRA, COPRA CAKES, HIDES AND SKINS AND TAPIOCA PRODUCTS. IN 1971 THESE 11 PRODUCTS CONTRIBUTED 89 PERCENT OF THE TOTAL VALUE OF NON-EXTRACTIVE EXPORTS; IN 1976, 83.6 PERCENT.

4. IT IS GENERALLY AGREED THAT IN INDONESIA'S DEVELOPING ECONOMY DOMESTIC DEMAND IS NOT SUFFICIENT TO ABSORB THE GROWING LABOR FORCE. THIS MAKES EXPORT PROMOTION IMPORTANT NOT ONLY FOR THE FOREIGN EXCHANGE EARNINGS THAT EXPORTS GENERATE BUT ALSO AS AN INPORTANT ELEMENT IN EMPLOYMENT STRATEGY. STAGNATION IN INDONESIA'S NON-EXTRACTIVE EXPORT SECTOR WOULD NOT BE OF SUCH SPECIAL CONCERN IF THE GROWING LABOR FORCE WERE ABSORBED INSTEAD IN THE EXTRACTIVE EXPORT SECTOR. HOWEVE, THE LABOR INTENSITY OF THESE TWO ACTIVITIES ARE SO TOTALLY DIF- FERENT THAT IT IS BELIEVED THAT RAPID GROWTH IN EXTRACTIVE EXPORTS AND STAGNATION IN NON-EXTRACTIVE EXPORTS HAS RESULTED IN FALLING EMPLOYMENT IN OVERALL EXPORT ACTIVITIES SINCE 1971.

5. THE ILO STUDY REFERRED TO ABOVE, DRAWING ON A 1971

INPUT-OUTPUT TABLE FOR INDONESIA, SHOWS THE FOLLOWING:  
LABOR INTENSITY OF NON-EXTRACTIVE AND EXTRACTIVE EXPORTS

NON-EXTRACTIVES:

COMMODITY	LABOR COEFFICIENT
CRUDE RUBBER	3.9
COFFEE	4.2
PALM OIL	3.0
SHRIMP	3.9
PEPPER	5.1
TEA	6.3
TOBACCO (UNMANUFACTURED)	8.2
COPRA	4.5
COPRA CAKES	3.8
MAIZE	29.0
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PAGE 04 JAKART 03316 01 OF 04 140745Z

TAPIOCA PRODUCTS	67.0
WEIGHTED AVERAGE 1/	6.95

EXTRACTIVES:

PETROLEUM, CRUDE	.3
PETROLEUM, REFINED	1.2
MINERALS	1.7
LUMBER	1.7
WEIGHTED AVERAGE 1/	.796

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PAGE 01 JAKART 03316 02 OF 04 141055Z  
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C O N F I D E N T I A L SECTION 2 OF 4 JAKARTA 3316

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1/ WEIGHTED AVERAGES BY 1971 VALUE SHARE OF GROUP (THE STATISTICAL MEANING OF THE LABOR COEFFICIENT IS THE ACTUAL NUMBER OF EMPLOYEES REQUIRED TO PRODUCE RP 1 MILLION (1971 VALUE) OF OUTPUT FOR FINAL DEMAND.) THE EMPLOYMENT-GENERATING CAPACITY OF EXTRACTIVE AND NON-EXTRACTIVE EXPORTS CAN BE SEEN BY COMPARING THEIR AVERAGE LABOR COEFFICIENTS; 6.95 FOR NON-EXTRACTIVE AND .786 FOR EXTRACTIVES. IN OTHER WORDS, THE LABOR INTENSITY OF NON-EXTRACTIVE EXPORTS WAS 8.73 OR NEARLY 9 TIMES AS GREAT AS THAT FOR EXTRACTIVES. CLEARLY, A DIFFERENCE IN LABOR-INTENSITY OF THIS MAGNITUDE HAS VERY SIGNIFICANT IMPLICATIONS FOR EMPLOYMENT CREATION. SOME OF THESE IMPLICATIONS CAN BE SEEN IN THE FOLLOWING TABLE FROM THE SAME STUDY.

## EMPLOYMENT EFFECTS OF EXPORT VOLUME CHANGES, 1971-76

	EXPORT VOLUME CHANGE (1971-76) (PERCENT)	1971 EXPORT EMPLOYMENT (1971-76)	CHANGE IN EMPLOYMENT
NON-EXTRACTIVES- (LABOR COEFFICIENT)			
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PAGE 02 JAKART 03316 02 OF 04 141055Z

RUBBER (3.9)	8.8	402,926	35,457
COFFEE (4.2)	89.4	46,095	41,209
PALM OIL (3.0)	94.1	44,485	41,860
SHRIMP (3.9)	25.0	22,434	5,609
PEPPER (5.1)	28.8	51,846	14,932
ATEA (6.3)	18.1	50,822	9,191
TABACCO (8.2)	15.1	49,252	7,437
COPRA (4.5)	-95.0	22,025	-20,923
COPRA CAKES (3.8)	61.0	15,122	9,224
TAPIOCA PRODUCTS (67.4)	-66.4	396,245	-236,107
MAIZE (29.0)	-98.3	124,838	-124,688
SUB-TOTALS	- 3.7	1,220,090	-243,793

EXTRACTIVES- (LABOR COEFFICIENT)			
CRUDE PETROLEUM (.3)	122.0	58,678	71,580
PETROLEUM RPOD- UCTS (1.2)	-49.9	17,049	-8,507
MINERALS (1.7)	38.9	31,142	12,114
TIMBER (1.7)	102.2	105,994	108,326
SUB-TOTALS	83.6	212,857	183,513
TOTAL CHANGE IN EMPLOYMENT			-60,280

THE TABLE USES THE PERCENTAGE VOLUME CHANGE BETWEEN 1971 AND 1976 AGAINST EMPLOYMENT ATTRIBUTABLE TO EACH EXPORT PRODUCT IN 1971 AS A ROUGH MEASURE OF THE GAIN OR LOSS IN EMPLOYMENT. AS CAN BE SEEN FROM THE TABLE, EMPLOYMENT CREATION IN EXTRACTIVES WAS NOT SUFFICIENT TO OFFSET THE VIRTUAL COLLAPSE OF MAIZE AND TAPIOCA PRODUCTION (BOTH HIGHLY LABOR INTENSIVE) AND THE SLOW GROWTH IN OTHER NON-EXTRACTIVES. AS A REASULT, EXPORT ACTIVI-  
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PAGE 03 JAKART 03316 02 OF 04 141055Z

TIES, INSTEAD OF PROVIDING AN INCREASING NUMBER OF JOB OPPORTUNITIES TO RELIEVE EMPLOYMENT PRESSURES, ACTUALLY SUFFERED A NET LOSS IN JOBS BETWEEN 1971 AND 1976.

6. ONE MUST BE CAREFUL IN INTERPRETING THE ABOVE TABLE. IT DOES NOT, FOR EXAMPLE, PURPORT TO MEASURE EMPLOYMENT IN AN INDUSTRY BUT ONLY THE CHANGE IN THE NUMBER OF JOBS PRODUCING FOR EXPORT WITHIN AN INDUSTRY. WHILE THERE ARE CERTAIN DEFICIENCIES IN THIS SORT OF ANALYSIS OF EMPLOYMENT CHANGES, IT IS NEVERTHELESS, IN OUR VIEW, A REASONABLE ROUGHT MEASURE OF SHIFTS THAT MAY HAVE OCCURRED.

7. IT IS REASONABLE TO ASSUME THAT AS THE COST/PRICE SQUEEZE HAS BEEN FELT IN THE NON-EXTRACTIVE SECTOR, FACTORS OF PRODUCTION HAVE SHIFTED OUT OF NON-EXTRACTIVE EXPORT ACTIVITY INTO OTHER ACTIVITIES. THIS WOULD BE PARTICULARLY TRUE FOR THOSE COMMODITIES WHOSE WORLD MARKET PRICES HAVE NOT RISEN SIGNIFICANTLY. FOR THOSE NON-EXTRACTIVE PRODUCTS WHICH ENJOY BOTH INTERNATIONAL AND DOMESTIC DEMAND, SUCH AS COPRA AND TAPIOCA, PRODUCTION PROBABLY HAS SHIFTED FROM THE INTERNATIONAL TO THE DOMESTIC MARKET. FOR OTHER COMMODITIES, HOWEVER, WITHOUT SIGNIFICANT DOMESTIC DEMAND THE SHIFT IS MORE LIKELY TO HAVE BEEN EITHER TO OTHER DOMESTICALLY-ORIENTED ACTIVITY OR INTO UNEMPLOYMENT. IT IS WORTH NOTING THAT SOME OF INDONESIA'S MOST LABOR-INTENSIVE EXPORTS HAVE DISAPPEARED COMPLETLEY FROM THE XPORT MARKET. IN FACT, IN THE CASE OF MAIZE AND COPRA, RECENT IMPOR- TATION OF THOSE PRODUCTS HAS MEANT THAT INDONESIA HAS EXPORTED EMPLOYMENT OPPORTUNITIES ELSEWHERE.

8. IMPORT-COMPETING INDUSTRIES. JUST AS THE OVER- VALUED RUPIAH HAS TENDED TO DISCOURAGE NON-EXTRACTIVE EXPORTS SO IT HAS TENDED TO ENCOURAGE IMPORT OF ALL  
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PAGE 04 JAKART 03316 02 OF 04 141055Z

KINDS. DOMESTIC PRODUCERS OF GOODS WHICH COMPETE AGAINST IMPORTS HAVE SEEN THEIR COSTS RISE FASTER THAN PRICES OF GOODS FROM OTHER COUNTRIES AND THIS HAS FORCES MARGINAL PRODUCERS EITHER TO GO OUT OF BUSINESS OR TO TURN TO THE GOVERNMENT FOR PROTECTION. ALTHOUGH IT IS DIFFICULT TO QUANTIFY, IT IS CLEAR THAT THE OVERVALUED RUPIAH HAS DEPRESSED JOB OPPORTUNITIES IN IMPORT-COMPETING INDUSTRIES, EVEN AMONG PROTECTED INDUSTRIES SINCE THEIR HIGH PRICES HAVE REDUCED DEMAND FOR THEIR OUTPUT.

9. CAPITAL-INTENSIVE VS. LABOR-INTENSIVE PRODUCTION. THE VALUE OF THE RUPIAH HAS HURT EMPLOYMENT CREATION IN OTHER WAYS AS WELL. BY MAKING CAPITAL EQUIPMENT IMPORTS RELATIVELY INEXPENSIVE, THE OVERVALUED RUPIAH ON A MARGINAL BASIS HAS TENDED TO PROVIDE A RELATIVE ADVANTAGE TO AND THUS TO ENCOURAGE CAPITAL-INTENSIVE PRODUCTION METHODS OVER LABOR-INTENSIVE METHODS.

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PAGE 01 JAKART 03316 03 OF 04 141039Z  
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C O N F I D E N T I A L SECTION 3 OF 4 JAKARTA 3316

STADIS////////////////////////////////////

FOR EA ONLY

IN A CLEAR EXAMPLE OF THIS, WE HAVE SEEN THE RESULTS OF A COST/BENEFIT STUDY LOOKING INTO THE POSSIBILITY OF IMPORTING HAND TRACTORS INTO BALI. THE STUDY DEMONSTRATED THAT IF THE LABOR DISPLACEMENT CONSEQUENCES ARE IGNORED, TRACTOR CULTIVATION IS CHEAPER THAN CULTIVATION USING TRADITIONAL METHODS OF ANIMAL AND HUMAN LABOR. HOWEVER, THIS COST ADVANTAGE IS DEPENDENT UPON SEVERAL POLICY VARIABLES THE MOST IMPORTANT OF WHICH IS MAINTENANCE OF THE CURRENT RATE OF EXCHANGE. ACCORDING TO THE STUDY,

FOR EXAMPLE, AT A RATE OF EXCHANGE OF RP 415/DOLLAR TRACTOR CULTIVATION WOULD STILL PROVIDE A POSITIVE RATE OF RETURN EVEN IF THE IMPORT TAX ON TRACTORS WERE RAISED TO 100 PERCENT WHEREAS AT AN EXCHANGE RATE OF RP 659/DOLLAR THE RETURN IS NEGATIVE EVEN IF THE DUTY REMAINS AT 20 PERCENT.

10. THE TRACTOR CASE IS BY NO MEANS UNUSUAL NOR IS THE ENCOURAGEMENT GIVEN BY AN OVERVALUED RUPIAH TO MECHANIZATION CONFINED TO THE AGRICULTURAL SECTOR. ON THE CONTRARY, IF IT DOES NOT DETERMINE, IT AT LEAST INFLUENCES DECISION-MAKING VIRTUALLY AT ALL LEVELS AND IN ALL AREAS OF ECONOMIC ACTIVITY.

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PAGE 02 JAKARTA 03316 03 OF 04 141039Z

11. HIGH IMPORT CONTENT MANUFACTURES. THE PRICE ADVANTAGE GIVEN IMPORTS BY AN OVERVALUED RUPIAH HAS ALSO TENDED TO DIRECT CAPITAL INVESTMENT TOWARD THOSE INDUSTRIES WITH A HIGH IMPORT CONTENT. INDEED, THE HIGHER THE IMPORT CONTENT AND THE LOWER THE SHARE OF VALUE-ADDED BY INDONESIAN PROCESSING, THE MORE COMPETITIVE THE INDUSTRY HAS REMAINED AS THE PURCHASING POWER OF THE RUPIAH OVER DOMESTIC GOODS AND SERVICES HAS DECLINED RELATIVE TO ITS PURCHASING POWER OVER FOREIGN GOODS. ALTHOUGH THE ESTABLISHMENT OF ASSEMBLY PLANTS AND PLANTS FOR THE PROCESSING OF VARIOUS SEMI-MANUFACTURED GOODS HAS GIVEN AT LEAST THE JAKARTA AREA THE SEMBALANCE OF MODERNIZATION IT IS IN REALTY A RELATIVELY THIN VENEER OF INDUSTRIALIZATION, PROVIDING LITTLE NEW EMPLOYMENT AND CREATING A DEPENDENCE ON IMPORTED MATERIALS. AND EVEN THESE OPERATIONS, IN MANY INSTANCES, CAN SURVIVE ONLY BEHIND HIGH TARIFF PROTECTION.

INVESTMENT OPPORTUNITIES

12. THE DIFFICULTY INDONESIAN AND FOREIGN ENTREPRENEURS ARE EXPERIENCING IN TRADITIONAL EXPORT INDUSTRIES AND IN INDUSTRIES COMPETING AGAINST IMPORTED GOODS MEANS THERE HAS BEEN A SIGNIFICANT EROSION OF PROFITABLE INVESTMENT OPPORTUNITES IN INDONESIA. ALTHOUGH A GREAT MANY OTHER FACTORS ARE ALSO AT PLAY, THE OVERVALUATION OF THE RUPIAH IS CERTAINLY ONE OF THE CAUSES OF THE DECLINE IN PRIVATE INVESTMENT IN RECENT YEARS.

CONSUMPTION

13. AN OVERVALUED CURRENCY TENDS TO ENCOURAGE INCREASED CONSUMPTION. THIS HAS BEEN THE CASE IN INDONESIA IN THE PERIOD 1971-76 ALTHOUGH THE INCREASED SHARES OF PRIVATE AND GOVERN-  
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PAGE 03 JAKARTA 03316 03 OF 04 141039Z

MENT CONSUMPTION IN GDP HAS NOT BEEN AT THE EXPENSE OF A SMALLER SHARE FOR CAPITAL FORMATION AS WOULD NORMALLY BE THE CASE. ON THE CONTRARY, CAPITAL FORMATION HAS INCREASED ITS SHARE AS WELL. THIS WAS POSSIBLE BECAUSE OF GREATER ACCESS TO EXTERNAL RESOURCES, PARTLY THROUGH CAPITAL INFLOW (MOSTLY FOREIGN ASSISTANCE) BUT MAINLY BECAUSE OF THE INCREASE IN OIL PRICES: A GIVEN VOLUME OF OIL EXPORTS NOW BUYS A MUCH LARGER VOLUME OF IMPORTS. AS A RESULT, AN EXCESS OF EXPORTS OVER IMPORTS (VALUED AT 1973 PRICES) EQUAL TO THREE PERCENT OF GDP IN 1971 BECAME AN EXCESS OF IMPORTS OVER EXPORTS EQUAL TO SIX PERCENT IN 1976. THE TABLE BELOW SHOWS THE PERCENTAGE DISTRIBUTION OF GROWTH DOMESTIC EXPENDITURE (AT 1973 PRICES IN 1971 AND 1976):

	1971	1976
PRIVATE CONSUMPTION	72.1	74.0
GOVERNMENT CONSUMPTION	9.5	11.0
GROSS DOMESTIC CAPITAL FORMATION	15.5	21.4
EXPORTS	15.9	17.4
LESS IMPORTS	-13.0	-23.8
GROSS DOMESTIC EXPENDITURES	100.0	100.0

14. DURING THIS PERIOD, IMPORTS OF CONSUMER GOODS GREW FROM \$210 MILLION IN 1971 TO \$916 MILLION IN 1976. THIS REPRESENTS A 436 PERCENT INCREASE OVER THIS FIVE-YEAR PERIOD AND DOUBTLESS THE RATE OF GROWTH WOULD HAVE BEEN EVEN HIGHER HAD IT NOT BEEN FOR THE GOVERNMENT'S INCREASING RESORT TO GREATER TRADING BARRIERS. IN THIS CONTEXT, IT MAY BE WORTH NOTING THAT NEARLY 90 PERCENT OF INDONESIA'S TOTAL EXPORTS AND ABOUT 75 PERCENT OF ITS NON-OIL EXPORTS ORIGINATE OUTSIDE OF JAVA. WITH AN OVERVALUED EXCHANGE RATE THE IMPORTER BENEFITS AND THE EXPORTER LOSES. THIS MEANS THAT TO THE EXTENT THE RUPIAH IS OVERVALUED, THE PEOPLE OF JAVA ARE BENEFITING AT THE EXPENSE OF THOSE ON THE OUTER ISLANDS, A CONSIDERATION WITH PERHAPS MORE IMPORTANT POLITICAL IMPLICATIONS.

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PAGE 04 JAKARTA 03316 03 OF 04 141039Z

## INCOME DISTRIBUTION

15. IT CAN ALSO BE ARGUED THAT THE VALUE OF THE RUPIAH HAS ALSO TENDED TO MAKE MORE SEVERE THE PROBLEM OF INCREASINGLY UNEQUAL DISTRIBUTION OF INCOME. IN THIS CASE, HOWEVER, THE RELATIONSHIP IS RATHER INDIRECT. BECAUSE



NON-EXTRACTIVE EXPORT ACTIVITY IS LABOR INTENSIVE, SMALL-SCALE AND TIGHTLY INTEGRATED INTO THE ECONOMY, RECEIPTS FROM THIS ACTIVITY ARE WIDELY DISBURSED. THIS CONTRASTS WITH THE EXTRACTIVE SECTOR WHICH IS LARGE-SCALE, CAPITAL-INTENSIVE AND POORLY LINKED TO THE REST OF THE ECONOMY; AS A CONSEQUENCE, ITS EXPORT RECEIPTS ARE ONLY NARROWLY DISTRIBUTED. SINCE THE EXTRACTIVE SECTOR'S SHARE HAS GROWN AT THE EXPENSE OF THE NON-EXTRACTIVE SECTOR, THIS HAS WORSENED THE PROBLEM OF CONCENTRATIONS OF WEALTH.

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PAGE 01 JAKART 03316 04 OF 04 141222Z

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TO SECSTATE WASHDC 7433

C O N F I D E N T I A L SECTION 4 OF 4 JAKARTA 3316

STADIS////////////////////////////////////

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THE RELATIVE ADVANTAGE WHICH THE OVERVALUED RUPIAH GIVES TO CAPITAL-INTENSIVE METHODS OF PRODUCTION ALSO TENDS TO GIVE AN ADDED ADVANTAGE TO THE WEALTHY BUSINESSMEN OVER THE UNDERCAPITALIZED ENTREPRENEUR FURTHER AGGRAVATING THE INCOME DISTRIBUTION PROBLEM.

FOOD PRODUCTION

16. WE HAVE NOT BEEN ABLE TO ESTABLISH A DIRECT RELATIONSHIP BETWEEN THE EXCHANGE RATE AND FOOD PRODUCTION. THE GOI HAS FAIRLY EFFECTIVELY INSULATED RICE FARMERS FROM INTERNATIONAL COST/PRICE CONSIDERATIONS BY ARTIFICIALLY ESTABLISHING A FLOOR PRICE FOR THE CROP AND BY SUPPLYING NEEDED INPUTS (SEED, INSECTICIDE, FERTILIZER) AT PRICES RELATED TO THAT FLOOR PRICE IN SUCH A WAY AS TO GIVE THE FARMER AN ADEQUATE INCENTIVE TO PRODUCE. SOME OBSERVERS, HOWEVER, WOULD ARGUE THAT THE DIFFERENTIAL BETWEEN INPUT AND OUTPUT PRICES DOES NOT PROVIDE SUFFICIENT INCENTIVE. IF THE RICE FARMER HAS INADEQUATE INCENTIVE, THEN IT

WOULD SEEM TO FOLLOW THAT OTHER FOOD CROP FARMERS WHO DO NOT HAVE ACCESS TO SUBSIDIZED INPUTS AND WHO OFTEN SEE THEIR HARVEST TIME PRICES PLUMMET BECAUSE THERE IS NO FLOOR PRICE, WOULD PROBABLY BE EVEN WORSE OFF. WHETHER  
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PAGE 02 JAKART 03316 04 OF 04 141222Z

THAT CONTENTION IS CORRECT OR NOT, THE PROBLEM SEEMS UNRELATED TO EXCHANGE RATE POLICY.

COMMENT

17. THE IMPLICATIONS OF THE EFFECT OF A POSSIBLE OVER-VALUED RUPIAH ON JOB CREATION AND TO A LESSER EXTENT, INCOME DISTRIBUTION, TWO OF THE MOST PRESSING CONCERNS OF INDONESIAN ECONOMIC PLANNERS, IT IS BEGINNING TO BE RECOGNIZED BY ACADEMICS AND GOI OFFICIALS. WE UNDERSTAND THAT THE CORE GROUP ON EMPLOYMENT STRATEGY AND MEMBERS OF THE RURAL DYNAMICS PROJECT OF THE UNIVERSITY OF INDONESIA AT BOGOR ARE HIGHLIGHTING THE EXCHANGE RATE EFFECT ON EMPLOYMENT IN THE PAPERS THEY ARE PREPARING TO ASSIST IN DRAFTING AND EMPLOYMENT STRATEGY FOR THE NEXT FIVE YEAR PLAN (REPELITA III). WHILE RECOGNIZING THAT EXCHANGE RATES ARE NOT THE ONLY FACTOR, IT IS BECOMING MORE EVIDENT THAT THE VALUE OF THE RUPIAH MUST BE CONSIDERED WHEN DISCUSSING OBSTACLES TO INCREASED EMPLOYMENT, AND INCOME DISTRIBUTION.  
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